India presents strong macroeconomic upside in FY03E

- Rural incomes have risen post strong harvest
- Services sector is a key driver of growth
- Soft retail loans have increased consumerism
- Public infrastructure spending is gaining momentum
- The industrial sector is poised to recover from its weak trend of 2000-2001
- Privatization process has gained considerable momentum
- Foreign exchange is cover available for a year of imports

However, there are some key risks to economic growth

- Unpredictability of political factors and the diplomatic rhetoric between India and Pakistan
- Other near term concerns – global oil dynamics, threat to agriculture from potential failure of rains
- Government finances cause for concern for credit rating agencies - S&P maintains a negative rating outlook

The long term growth potential is high but is a function of removal of structural impediments

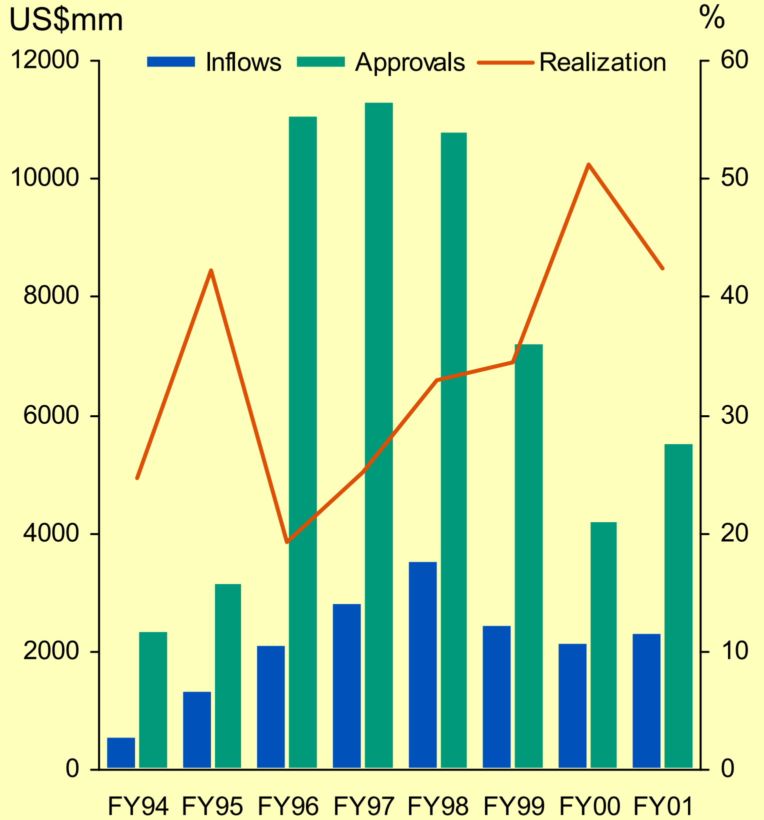
- Reforms process aimed at reducing structural impediments has gained momentum
- Services industry is expected to remain a strong driver of growth
- Fiscal situation is expected to improve over a five-six year horizon due to
  - Natural attrition in government staffing
  - Thrust on privatization
  - Tax rationalization
  - Government debt consolidation
  - Gradual phasing out of subsidies

JPMorgan estimates a long term annual GDP growth rate of 6%

However FDI inflows, in the global context, have been disappointing

FDI realizations have been low and while India's share of Emerging Asia investment inflows has increased, it is still relatively small

FDI approvals and realizations



Emerging Asia – Net direct investment flows

%	1996	1997	1998	1999	2000
Total (US$ bn)	83.6	88.7	83.7	92.6	133.0
Total	**100**	**100**	**100**	**100**	**100**
China	48.1	49.9	52.3	43.6	28.9
Ex-China	**51.9**	**51.1**	**47.7**	**56.4**	**71.1**
Hong Kong	12.5	12.8	17.7	24.9	48.4
Indonesia	2.8	3.2	6.5	10.1	6.6
Taiwan	10.7	9.1	6.6	7.5	4.8
India	2.2	2.5	0.3	3.2	3.7
Philippines	8.7	7.3	3.2	3.8	2.3
Thailand	2.8	4.4	8.7	6.7	2.3
Korea	2.9	4.0	3.1	2.3	1.9
Malaysia	7.4	5.3	-0.4	-3.0	0.0
Singapore	1.8	1.4	2.1	0.8	1.1

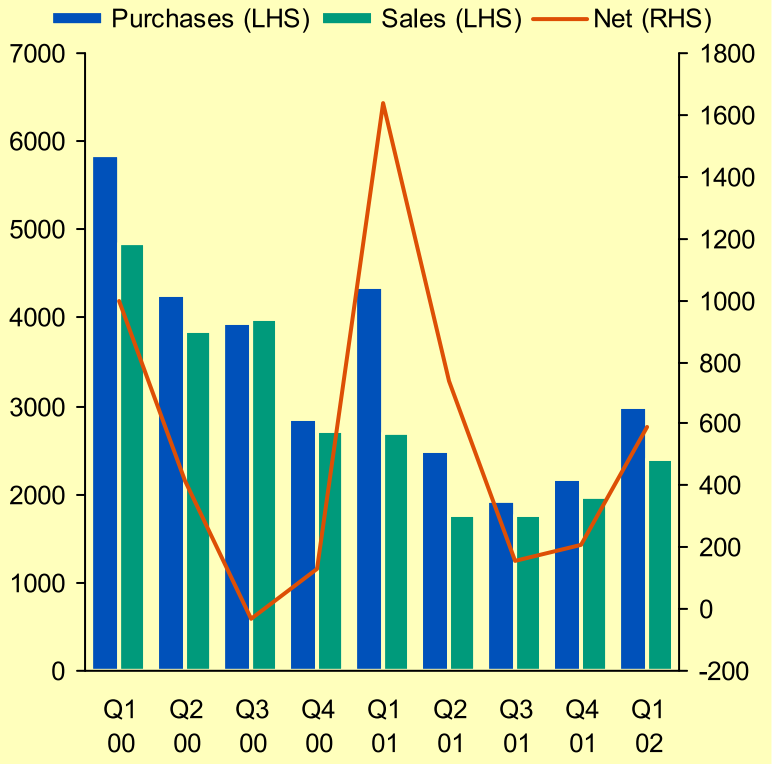
Source: JPMorgan estimates

FII activity has been muted but long term prospects are encouraging

- Institutional investors believe emerging markets are the preferred asset class of 2002 and maybe even 2003
- India is attractive but needs triggers - cyclical recovery and privatizations have been main drivers recently
- Key risks perceived by investors are
  - Stability of government
  - Reform and privatization momentum
  - Concerns regarding UTI's restructuring and investment strategy

FII activity

US$mm



Financial Community perspective on risk associated with gas projects in India

Review of key risks

Country factors

- Political and economic stability
- Legal framework
- Precedents of legal dispute and contract abrogation in the relevant industry
- Track record of success or failure in related transaction and financings

Project factors

- Economic and commercial rationale
- Ability to complete the project
  - Sufficient funding
  - Government approvals
  - Environmental approvals
  - Cost control
- Infrastructure to transport the gas
- Offtake

Critical factor : Offtake

Demand	• Is there sufficient demand at every step of the value chain to ultimate consumer of gas or electricity
Credit quality of offtaker	• Ability of offtaker to make payments at each step of the value chain
Offtake contract	• Legal documentation for price and minimum volume helps, but ultimately must rely on underlying fundamentals of demand and ability to pay. If fundamentals fail, no legal document can help

Implications for gas projects in India

- Due diligence process
  - Detailed review of demand assumptions and offtaker financials
  - Lenders more involved in review of project contracts
- Security structures in offtake contract
  - Short term protection : escrow accounts, sinking fund, debt service reserve account
  - Possibly rely on guarantees or undertakings by related parties (parent company, local or federal government)

Ultimately overall improvement in offtaker credit will be critical for gas projects

Indian power sector: key issues

- Structure of the industry - Power is a state subject
- Distorted tariff structure and inadequate tariffs
- Lack of accountability in the sector, which has resulted in
  - Inefficient operations with low capacity utilization
  - High level of Transmission & Distribution losses
- Political nexus of the sector
- Lack of private sector investment in the sector, due to
  - Poor credit-worthiness and bad payment records of the State Electricity Boards (“SEB”)
  - Complex regulatory structure and unclear government policies

The sector is in a vicious cycle marked by lack of investment and operating inefficiencies resulting in low revenues and weak financial profile, further restricting the ability to undertake capacity expansion

Indian power sector: central government reforms

The central government has take several measures to encourage the state governments to undertake and expedite the power sector reforms

√ The central government has made several important announcement for power sectors reforms and shown urgency in the passage of the Draft Electricity Bill

√ The central government has signed MoU with state governments detailing the specific milestone to be achieved, and linked budgetary allocation to the achievement of these milestone

√ The central government has set up a high-powered committee for restructuring the dues of the SEBs and restoring their financial position

√ The central government has also increased the budgetary allocation to the power sector

Indian power sector: state level reforms

In response to central government's initiatives, some state governments have taken measures to revive the SEBs and resolve the problems affecting the sector

- √ Setting up of State Electricity Regulatory Commissions (SERC), as independent regulators for the sector
- √ Rationalization of tariffs, including raising agricultural and domestic tariffs
- √ Corporatization and privatization of SEBs after they are unbundled into generation, transmission and distribution entities
- √ Increase the metering of connections to ensure billing of consumption
- √ Improving the collection mechanism to ensure that all bills are collected
- √ Investment in repairs and maintenance to reduce system losses and improve operational efficiencies

Indian power sector: recommendations

- √ Enactment of the Electricity Bill in to a Law - providing constitutional framework for the reform and setting up of independent regulatory authority
- √ Establishing proper regulatory framework - encouraging investment in the sector
  - Regulatory framework need to be less discretionary
  - Balance the interest of the utility and that of the customers
- √ Evolving national consensus for power sector reforms, along with obtaining cooperation from all the state governments
- √ Provide guidelines and frameworks to the state governments for the reform process and ensure achievement of key milestones in timely manner
- √ Reviving the SEBs - through debt restructuring and better operational performance standards and greater accountability
- √ Tariff rationalization - reducing cross-subsidization